EQUICHAIN WEALTH ADVISORS

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Global Market- Repeat of August 2007 to January 2008 phase?

Last week we have discussed, US economic data – jobs data, US Fed chair Jerome Powell speech and protest against zero COVID policy of China. After Jerome Powell 's speech fed rate monitor tool indicates around 80% probability of 50-bps rate hike to 4.25% to 4.50%.

This week we will discuss in detail what we mean by repeat of August 2007 – January 2008 phase. We refer this phase as fresh round of stimulus and support to aligning economy or it could be change to its ongoing tightening phase. This phase was transitory in nature and change in policy was really quick and we will discuss in details.

1) First step – Acknowledging the problem
2) Second step – Change from hawkish monitory policy to accommodative
3) Third step – Stimulating economy again.

Please note that we are not discussing what happen post January 2008, fall seen in January 2008 which was followed by systematic issue and bottom of than fall which was made in March 2009 globally.

We want to clarify that we are trying to draw some parallel comparison and future events and trends as per our understanding and what has happened during August 2007 to January 2008. Policy response by Central banks globally is similar kind that we have seen in past 20 years which is to provide stimulus and bring interest rate down.

Key events & run-up to event in August 2007

- Interest rate in US was at 5.25% from 29-Jun-06 to 18-Sep-07. US Fed increase rate by 25-bps on 29-Jun-06.
- US Inflation average in 2006 was @ 3.2% & average inflation in 2007 was @ 2.80%.
- Growth forecast for next 6 quarters reduced considerably in August 2007 Fed meeting.
- US Fed 2-Aug-07 meeting: guided for rate to be maintained at 5.25% through end of 2008. Market participants has revised their anticipated rate at 4.50%.
- US Fed 10-Aug-07 Conference call: Provided liquidity support to fed fund rate to trade around 5.25%. To support depository institutions for unusual fund requirement.
- US Fed 17-Aug-07 conference call: Fed members raising concern over economic outlook and disruption in financial market.

First step – Acknowledging the problem was on 17-Aug-07

In December 2022: US Fed chair comment is to slowdown pace of rate hike in upcoming US Fed meeting outcome on 14-Dec-22. So, in current cycle we are yet to see first step towards the need to change monitory policy.

Second step – Change from hawkish monitory policy to accommodative

- US Fed 18-Sep-07 meeting outcome: decrease rate by 50-bps to 4.75%. Tightening in credit conditions has potential to intensify the housing correction and to restrain economic growth generally.
- US Fed cut another 2 consecutive rate cuts on 31-Oct-07 & 11-Dec-07. US Fed rate stands at 4.25% after 11-Dec-07 rate cut.
- In chart mentioned below rally started after 17-Aug-07 after commitment to mitigate the adverse effects on economy arising from disruptions in financial market.
- In initial stage crisis was never anticipated to be such dip impact on financial market, US interest rate was at 5.25% from 29-Jun-06 to 18-Sep-07 while inflation was mainly under control.
- Initial reaction of change in monitory policy in US triggered rally in emerging market equity and emerging market currency.

Third step – Stimulating economy again – not seen in near future

Inflation remains key concern for central bankers as of now, so need for providing stimulus package will only arise if there is significant weakness in economy. Let us understand the difference in August 2007 & December 2022 or February 2023.

August 2007 – Global factors	December 2022 – Global factors
US Fed increase rate by 25 bps to 1.25% on 30-Jun-03	US Fed increase rate by 25 bps on 17-Mar-22
Geo-political tension – Afghanistan & Iraq war in 2001 & 2003	Geo-political tension – Russia Ukraine crisis started in February 2022 & ongoing
Geopolitical tension – resulted in slowdown	Geopolitical tension – resulted in high inflation
Year 2003 – 2007 – was increasing interest rate supported by economic growth	COVID-19 pandemic from March 2020 – Once in century event caused supply chain disruption.
Global inflation was in control – US inflation was around 3%.	Global inflation is key challenge – US inflation is current around 7.6% & inflation in Europe around 10%.

Equichain Wealth Advisors: Market View & Opinion

We believe, change in stance is possible in 13 – 14 December 2022 US Fed meeting or it can be expected in subsequent meeting in February 2023. Even if the change in stance will be pause, we believe market will take it positively. US Fed chair Jerome Powell in his last speech has indicated slowdown in rate hike as soon as December 2022 meeting and hike in rate to be 50-bps after 4 consecutive hike of 75-bps in last 4 meetings.

We expect market to see healthy rally once there is acknowledgement by US Fed to change its stance. We would like to clarify that we do not jump to conclusion to that a sharp rally will be followed by fall seen post January 2008 and it needs to be evaluated as future development happens.

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